**DEPARTMENT: PUBLIC ENTERPRISES**

**REPUBLIC OF SOUTH AFRICA**

**NATIONAL ASSEMBLY**

**QUESTION FOR WRITTEN REPLY**

**QUESTION NO.: 847**

**DATE OF PUBLICATION: 18 March 2016**

**Mr J R B Lorimer (DA) to ask the Minister of Public Enterprises:**

(1) With reference to the deal between Eskom and Optimum Colliery to supply coal to the Hendrina Power Station, (a) what grade of coal (i) was contracted for, (ii) was actually received by Eskom at the specified power station prior to the fine imposed against the specified colliery by the specified entity, and (iii) is currently being received by Eskom at the specified power station and (b) at what (i) price or (ii) prices;(2) why was the coal received from the specified colliery unsuitable for use by the specified power station prior to the imposition of the fine; (3) is the coal currently received from the specified colliery suitable for use by the specified power station; (4) did the use of unsuitable coal supplied by the specified colliery cause any damage to the specified power station; if so, (a) what damage was done, (b) what was the value of the damage caused to the specified power station and (c) has this damage been repaired; (5) is the poor quality coal still causing damage to the specified power station; if not, (a) was the grade of coal changed or (b) was the specified power station adapted to use a different grade of coal; if so, why is the specified power station still using this coal?NW966E

**REPLY:**

(1)(a)(i) In terms of the Coal Supply Agreement, Optimum Coal Mine (Proprietary) Limited ("Optimum") was obliged to supply and deliver to the Hendrina power station coal which complies with, amongst others, the following quality specification:

* All coal must have an ash content which shall not exceed 28.8% in order to ensure that the calorific value of the coal is not less than 23.0MJ/kg (calculated on a moisture free basis);
* a monthly average size distribution of:
* not more than 55% of coal supplied will be smaller than 6mm;
* not more than 35% of coal supplied will be smaller than 2.38mm; and
* not more than 15% of coal supplied will be smaller than 0.81mm.
* The Second Addendum amended the quality parameters in respect of the Abrasiveness Index (pursuant to an arbitration with Optimum) to be <423 mgFe on a 7 day weighted rolling average basis.

(ii) The coal that was received by Eskom was within contractual specifications with regard to the Calorific Value but out of specification in respect of Abrasive Index and Sizing.

(iii) The coal currently being received by Eskom meets the contractual specifications with regard to the Calorific Value except for Abrasive Index.

(b) The price of coal paid by Eskom is R174.41/ton as at February 2016.

(2) The coal supplied by Optimum Coal prior to the imposition of the fine was outside the quality specification for Hendrina Power Station in terms of Abrasive Index and Sizing. For the 1 March 2012 to 31 May 2015, Optimum Coal, failed to supply and deliver to Eskom coal which meets the quality parameter as set out in the Coal Supply Agreement. The coal supplied and delivered to Eskom, amongst others, failed to comply with the sizing specification, in that 20% to 45% of the coal supplied and delivered to Eskom by Optimum on a monthly basis, during the period of supply was smaller than 0.81mm. Despite this failure by Optimum, Eskom has, without prejudice to its right in terms of clause 3.6 of the First Addendum, paid Optimum for such coal, without applying any adjustment or reduction to the payment, for Optimum's failure to comply with the quality parameters.

(3) The coal currently received by Hendrina Power Station is within the contractual specifications in respect of Calorific Value except for the Abrasive Index and the Sizing. Since Optimum is currently under business rescue, the parties have in terms of the interim agreement agreed to suspend the application of penalties until the business rescue process is finalised. Of critical importance to note is that Eskom has issued Summons against Optimum for failing to supply coal that meets the quality specification of the station. Optimum has since disputed the penalties. Once the business rescue process has been finalised, the legal proceedings will continue to run its course.

(4) High Abrasive Index causes high wear rate of the plant and sizing affects the material flow frequency causing hang-ups which results in load losses. The wear rate causes accelerated wear of parts. This negatively affects the energy output from the station thus the total energy capacity available for dispatch into the grid. In order to compensate Eskom for the capacity loss occasioned as a result of these quality parameters being out of specification, penalty provisions in terms of the contract apply.

(5) (a) Since Optimum is currently under business rescue, the parties have in terms of the interim agreement agreed to suspend the application of penalties until the business rescue process is finalized.

(b) No. Not applicable.